

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07
FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04
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FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 9355
TREASURY DEPT WASHDC
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

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BRUSSELS FOR US MISSION EEC

PARIS ALSO FOR US MISSION OECD

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS -- JULY 7 - 13

1. SUMMARY: WITH THE HOUSE OF COUNCILLORS ELECTION OUT OF THE WAY, PRIME MINISTER FUKUDA TELLS HIS ECONOMIC MINISTERS TO STUDY PROMPTLY ACTIONS TO ENSURE ECONOMIC RECOVERY AND TO REDUCE JAPAN'S CURRENT ACCOUNT SURPLUS. AMONG SUGGESTIONS SURFACING AS TO WHAT SHOULD BE DONE ARE THOSE OF THE JAPANESE FEDERATION OF ECONOMIC ORGANIZATIONS (KEIDANREN) CALLING INTER ALIA FOR A LARGE SUPPLEMENTAL BUDGET AND ANOTHER CUT IN THE DISCOUNT RATE. REVISED NUMBERS SHOW THAT THE FALL IN INDUSTRIAL PRODUCTION IN MAY WAS LARGER THAN ANTICIPATED. (2.3 PERCENT UNCLASSIFIED

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VS THE 2.1 PERCENT EARLIER ESTIMATED.) THE BANKRUPTCY RATE FALLS SOMEWHAT IN JUNE BUT REMAINS AT HIGH LEVELS. A 0.2 PERCENT DECLINE IN WHOLESALE PRICES IN JUNE PROVIDES A BRIGHT NOTE. END SUMMARY.

2. THE STRONGER THAN ANTICIPATED SHOWING OF PRIME MINISTER FUKUDA'S LIBERAL DEMOCRATIC PARTY IN SUNDAY'S

HOUSE OF COUNCILLORS ELECTION PREDICTABLY GAVE A LITTLE FILLIP TO THE STOCK MARKET AND SPARKED ANOTHER, NOT PARTICULARLY PRONOUNCED, RISE IN THE YEN EXCHANGE RATE. WITH THE POLITICAL AIR CLEARED, THE WAY WAS ALSO OPENED FOR A RENEWED FLURRY OF ATTENTION TO ACTIONS WHICH MIGHT BE TAKEN TO ENSURE ECONOMIC RECOVERY AND TO REDUCE JAPAN'S CURRENT ACCOUNT SURPLUS.

3. PRIME MINISTER FUKUDA SAID, FOLLOWING THE REGULAR CABINET MEETING ON TUESDAY, THAT HE INTENDED TO CALL A MEETING SOON OF THE CABINET LEVEL COUNCIL ON ECONOMIC AFFAIRS IN ORDER TO STUDY BOTH THESE QUESTIONS. ECONOMIC PLANNING AGENCY DIRECTOR GENERAL KURANARI HAS BEEN QUOTED AS SAYING THAT DECISIONS WILL BE TAKEN AT SUCH A MEETING WHICH WILL BE SCHEDULED NO LATER THAN THE END OF NEXT WEEK, BUT IT REMAINS TO BE SEEN WHETHER IT IS REALLY ENVISAGED THAT BROAD RANGING DECISIONS WILL BE REACHED THAT SOON. WHILE THE PRIME MINISTER CONTINUES TO SAY THAT IF ACHIEVEMENT OF HIS FY 77 6.7 PERCENT GROWTH TARGET IS THREATENED, HE WILL EMPLOY FLEXIBLE FISCAL AND MONETARY MEASURES (POSSIBLY INCLUDING A SUPPLEMENTAL BUDGET), HE ALSO CONTINUES TO VOICE OPTIMISM THAT THE EARLIER STEP-UP IN PUBLIC WORKS SPENDING WILL SOON BE FELT, SEEMINGLY SUGGESTING THAT HE IS NOT YET PREPARED TO ACCEPT THE NEED FOR FURTHER MACRO-ECONOMIC STIMULUS. DESPITE CRITICISM OF RECENT YEN APPRECIATION IN SOME CIRCLES, THE PRIME MINISTER IN HIS POST-ELECTION PRONOUNCEMENTS ALSO UNCLASSIFIED

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PERSISTED IN HIS DEFENSE OF A STRONGER YEN, ALTHOUGH HE REPORTEDLY EMBELLISHED PREVIOUS POSITIONS SLIGHTLY BY ATTRIBUTING YEN STRENGTH BOTH TO APPRECIATION OF THE VALUE OF THE CURRENCY AND TO INTERNATIONAL UNREST OVER THE VALUE OF THE DOLLAR.

4. SUGGESTIONS FOR FURTHER POLICY ACTIONS TO DEAL WITH CURRENT ECONOMIC PROBLEMS ACCUMULATE AT A RAPID RATE. JAPAN'S FEDERATION OF ECONOMIC ORGANIZATIONS, THE KEIDANREN, DID NOT EVEN WAIT FOR ALL THE ELECTION RETURNS TO COME IN BEFORE IT LAID ON THE TABLE WHAT IT THOUGHT SHOULD BE DONE ABOUT THE ECONOMY. IN PROPOSALS RELEASED MONDAY, THIS INFLUENTIAL BUSINESS GROUP CALLED FOR (A) A YEN 1.5 TRILLION (OVER \$5-1/2 BILLION AT CURRENT EXCHANGE RATES) SUPPLEMENTAL BUDGET BY SEPTEMBER; (B) FURTHER REDUCTIONS IN THE OFFICIAL DISCOUNT RATE AND LONG-TERM INTEREST RATES; (C) ASSISTANCE TO BUILD UP JAPAN'S EMERGENCY OIL RESERVES; (D) INVESTMENT INCENTIVES AND (E) PROMOTION OF ELECTRIC POWER PROJECTS. KEIDANREN PRESIDENT DOKO ACCOMPANIED ANNOUNCEMENT OF THESE PROPOSALS WITH AN URGING THAT THERE SHOULD BE NO HANG-UP ABOUT DEFICIT FINANCING OF AN ENLARGED BUDGET DEFICIT GOING BEYOND THE 30 PERCENT OF

EXPENDITURE MARK WH THE GOVERNMENT HAS TO DATE SOUGHT
TO AVOID BREACHING.

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5. REVISED STATISTICS FOR INDUSTRIAL PRODUCTION IN MAY
SEEM LIKELY TO GIVE ANOTHER BOOST TO THOSE ADVOCATING MORE
ECONOMIC STIMULUS SOON. THE REVISED FIGURES, RELEASED
JULY 13, SHOW SOMEWHAT SHARPER DECLINES IN BOTH INDUSTRIAL
PRODUCTION AND SHIPMENTS THAN DID THE PRELIMINARY FIGURES.
SEASONALLY ADJUSTED, MINING AND MANUFACTURING PRODUCTION
FELL 2.3 PERCENT FROM APRIL VS 2.1 PERCENT IN THE PRELIMINARY
FIGURES, AND SHIPMENTS DECLINED 2.7 PERCENT, AS COMPARED WITH
THE EARLIER ESTIMATE OF A 2.4 PERCENT DROP. INVENTORY TO
SHIPMENTS RATIO ROSE AT 4.5 PERCENT RATE VS 4.0 PERCENT RISE SHOWN
IN PRELIMINARY FIGURES. REVISED FIGURES FOLLOW:

(INDEX, S.A. 1970 EQUALS 100; PERCENT CHANGE
FROM PRIOR MONTH IN PAREN)

	MIN. MFG. PRODUCTION	PRODUCERS' SHIPMENTS	INVENTORY TO SHIPMENTS RATIO
MAR	130.7 (2.5)	136.2 (2.9)	123.1 (MIN -3.8)
APR	131.9 (0.9)	134.8 (MIN -1.0)	124.6 (1.2)

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MAY 128.9 (MIN 2.3) 131.2 (MIN 2.7) 130.2 (4.5)

6. THE BANKRUPTCY RATE REMAINED HIGH IN JUNE, ALSO CONTRIBUTING TO THE INTENSIFICATION OF PRESSURES ON THE GOVT FOR FURTHER ECONOMIC POLICY ACTION. THE TWO PRIVATE RESEARCH ORGANIZATIONS WHICH COLLECT STATISTICS PLACED BANKRUPTCIES CASES IN JUNE AT 1526-1528 WITH COMBINED LIABILITIES OF ABOUT \$800 MILLION EQUIVALENT. ALTHOUGH THE JUNE FIGURES WERE DOWN FROM MAY IN BOTH NUMBER OF CASES AND AMOUNT OF LIABILITIES INVOLVED, ATTENTION HAS TENDED TO FOCUS ON THE SIZEABLE YEAR OVER YEAR INCREASES THUS FAR THIS YEAR. IN THE FIRST HALF OF THIS YEAR, THE NUMBER OF BANKRUPTCIES WAS UP ABOUT 30 PERCENT OVER THE FIRST SIX MONTHS OF 1976, AND THE AMOUNT OF LIABILITIES INVOLVED WAS UP ABOUT 50 PERCENT.

7. ON A BRIGHTER NOTE, WHOLESALE PRICES (N.S.A.) DROPPED IN JUNE A COMFORTING 0.2 PERCENT FROM THE MAY LEVEL, BRINGING THE YEAR ON YEAR INCREASE TO 2.6 PERCENT. THE BANK OF JAPAN ATTRIBUTES THE FALL IN LARGE MEASURE TO YEN APPRECIATION. WHOLESALE PRICES OF MANUFACTURED GOODS ALSO FELL IN JUNE, BY 0.1 PERCENT; THE YEAR OVER YEAR INCREASE WAS 2.2 PERCENT.

WHOLESALE PRICES
(INDEX, N.S.A.: 1970 EQUALS 100; PERCENT CHANGE
FROM PRIOR MONTH IN PARENS)

ALL COMMODITIES (JEI 471)		MANUFACTURES (JEI 487)	
MAR	169.5 (0.1)		159.8 (0.1)
APR	169.4 (MIN 0.1)		159.9 (0.1)
MAY	169.6 (0.1)		160.1 (0.1)
JUN	169.2 (MIN 0.2)		159.9 (MIN 0.1)

MANSFIELD

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Disposition Case Number: n/a
Disposition Comment:
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